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The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

NIC 02177-85
25 April 1985

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: David B. Low
National Intelligence Officer for Economics

SUBJECT: Attached Talking Points on the US-USSR Joint
Commercial Commission Meeting Scheduled for
May 20-21 in Moscow

1. Attached are the subject talking points. They are based on six recent papers by OSOVA and OGI as well as other current intelligence. They have been reviewed by analysts from those two offices and discussed with the NIO/USSR.

2. As I discussed with you this morning, these talking points were developed in the context of an anticipated initiative by the Commerce Department to expand the kinds of oil and gas equipment which might be exported to the Soviet Union by the United States. However, under the present circumstances, including Gorbachev's recent tough comments and the Soviet statement on the Nicholson killing, Secretary Baldrige has retreated from proposing any such initiative. Thus, Commerce is relying on and will act in accordance with NSDD 155 dated January 4, 1985 in which it is stated:

"To avoid sending inconsistent signals to the allies and the USSR, US oil and gas equipment sales should not be an area in which the US should agree to an active program of trade expansion pending further policy clarification by me (the President)."

Accordingly, the NSC meeting scheduled for Friday has been cancelled.

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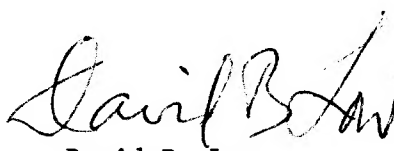
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SUBJECT: Talking Points on the US-USSR Joint Commercial Commission
Meeting Scheduled for May 20-21 in Moscow

3. The question at Saturday's meeting will be the circumstances under which the JCC meeting should be allowed to proceed, if at all. This makes moot for the time being the substantive question of expanding US exports of oil and gas equipment and focuses attention on the political environment and the kind of signal the Administration wishes to convey.



David B. Low

Attachments:

- A. The May 1985 JCC and the Soviet Agenda
- B. Western Technology and Equipment and Soviet Energy
- C. Background on Energy Projects Requested by Moscow for
JCC Discussion
- D. Future Declines in Soviet Oil and Gas Earnings

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ATTACHMENT A

25 April 1985

THE MAY 1985 JCC AND THE SOVIET AGENDA

The ramifications of the May 20-21 meeting of the US-USSR Joint Commercial Commission--the first in six years--will be more political than economic.

- Although generally disappointed with the contributions to their economy of Western technology and equipment, the Soviets continue to hope for economic benefit in obtaining US technology and goods.
- More importantly at this stage, they view increased trade with the US as a necessary adjunct to a general normalization of relations and as an opportunity to gauge US commitment to normalization.

Accordingly, Moscow probably expects the US to show some flexibility in these talks. At the same time, the Soviets probably do not expect substantial progress on key issues.

- The Soviets hope that the prospect of increased trade will cause affected US businessmen to urge the US Administration to avoid policy decisions that Moscow would view as hostile (such as stronger COCOM controls) and to adopt conciliatory positions on broader issues such as arms control.
- Some Soviet statements to US businessmen strongly suggest that the two issues of arms control talks and renewal of US-Soviet trade talks are closely linked in the minds of the Soviet leadership.

While Moscow already has concluded, and will continue to conclude, a few contracts to US suppliers, economic realities constrain any rapid growth in bilateral trade over the 1985-1990 period.

- Moscow has developed alternative suppliers in Eastern and Western Europe to reduce dependence on US goods.

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SUBJECT: The May 1985 JCC and the Soviet Agenda

- The Soviets will have a smaller capacity for hard currency earnings, at least through 1990, as a result of stagnant or falling oil production.
- Moscow will be selective in its equipment imports because of past problems in productively assimilating Western technology.

Despite technical advantages in some product areas, US firms would not likely see a large rise in sales absent government restrictions until overall relations with the USSR improve.

- In FY 1983 and 1984 export licenses in preparation for bidding on Soviet projects were granted for \$356 million in US sales.
- Commerce Department can only confirm \$2.6 million in shipments over the period although the total may be in the range of \$6 to \$10 million. This presumably reflects the Soviet "black-listing" of US firms.
- Political considerations aside, favorable financial terms and the high dollar give West European and Japanese suppliers a competitive edge in areas where their equipment is nearly on a par with US quality.

At the January 1985 preliminary meeting between Under Secretary Olmer and Deputy Foreign Trade Minister Sushkov, the latter stated that, while the USSR was not expecting major improvements, he felt it would be useful to see progress on such issues as port access for Soviet ships, bans on US imports of Soviet furs and nickel, and the refusal to recertify Aeroflot flights into this country.

- The Soviets may be encouraged by such recent acts as the US government's failure to ban imports of selected Soviet goods on the ground that forced labor was used in their manufacture, and the easing of certain COCOM restrictions (on personal computers, for example).
- More serious trade issues such as the granting of MFN status, the reduction of trade controls on sensitive items or government guarantees of contract sanctity they understand will probably not be resolved soon.

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List of Projects Provided by the Soviet Trade Representative's Office

Sudoimport

- ✓ 1. Factory for the manufacturing of ice-tolerant offshore platforms for use in the far east.
- ✓ 2. Ice-tolerant offshore platforms for Sakhalin.
- ✓ 3. Underwater well-head equipment for operating oil and gas wells.

Mashinoimport

- ✓ 4. Gas compressor station in Karachagan.
- ✓ 5. Equipment for the development of Astrakhan gas deposits.

Tekhnopromimport

- 6. Equipment for manufacturing denim; capacity: 60 million square meters per year.
- 7. Equipment for sewing denim articles; capacity: 20 million pieces per year.
- 8. Equipment for production of non-alcoholic beverages, with compensation in vodka.
- 9. Equipment for making cigarettes, with partial compensation in tobacco.
- 10. Equipment for the production of baby formula (milk).
- 11. Equipment for the production of meat-based bullion cubes; capacity: 125 million cubes per year.
- 12. Equipment for the production of meat baby food; capacity: 42 tons per shift.
- 13. Equipment for the production of textured soy protein; capacity: 1200 tons per 24 hour period.

Tekhmashimport

- 14. Factory for the production of acetic acid; capacity: 150,000 tons per year.
- 15. Equipment for an amide fiber complex, including raw materail production; capacity: 66,000 tons per year.

Soviet project list (continued)

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16. Equipment for the production of linear polyethylene.
17. Equipment for the production of vinyl-cyanide (acrylonitrile).
18. Equipment and technology for production of the herbicide "Bazargan;" capacity: 6,600 tons per year.

Metallurgimport

19. Self-propelled boring rigs used in mining.

Prommashimport

20. Glass-shaping lines for manufacturing perfume bottles in the .2-.3 liter size range.
21. Equipment for the production of water bottles.
22. Equipment for the production of crystal goblets and glasses.
23. Equipment for the production of milk cartons.
24. Equipment for the production of plaster slabs.
25. Equipment for making concrete slabs and blocks from cement and from crushed marble.
26. Equipment for the production of pre-fabricated, transportable, spherical, vegetable storage containers.
27. Factory for producing fire-proofing.
28. Equipment for the production of cement by dry method.
29. Equipment for making cartons from cardboard.
30. Wood finishing equipment (millcutting lines), specifically for putting together extra-long pieces.
31. Equipment for the production of compressors for home refrigerators.
32. Criss-cross stitching equipment.
33. Equipment for producing oversized plywood; capacity: 50,000 cubic meters per year.

April 9, 1985

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ATTACHMENT B

25 April 1985

WESTERN TECHNOLOGY AND EQUIPMENT AND SOVIET ENERGYBackground

The USSR is the world's leading producer of oil and natural gas. By 1970, oil had displaced coal as the dominant fuel in the Soviet energy balance, and we anticipate by 1990 natural gas will account for the largest share of the USSR's primary energy production.

Oil output slipped to 12.3 million barrels per day last year, down about 100,000 from 1983--the first year-to-year decline since WWII.

- The falloff is due primarily to the advanced age of most of the largest oil fields.
- We expect an even larger decline in 1985, while investment in the industry is planned to increase by about 15 percent.
- Over the last several years oil production efforts have been pushed in the near-term to the detriment of needed oil exploration. Now, at the oldest oil fields in West Siberia, production per well is down amidst wide-spread equipment and corrosion problems. The newer fields are smaller and less productive with increased need for pumps and maintenance.
- Meanwhile, there have been two waves of management changes in the oil ministry.

On the other hand, natural gas production has been growing at 7 percent annually, and the outlook for continued growth is excellent. Coal production continues to stagnate.

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SUBJECT: Western Energy Technology and Equipment and Soviet Energy

The Need for Western Energy Technology and Equipment

Efforts to halt the decline in oil production and to develop certain new gas reserves will force the Soviets to look to Western technology and equipment.

- Oil exploration and development is shifting to deeper deposits, for which efficient exploitation requires Western exports including seismic and drilling equipment as well as Western technology for designing, producing, and integrating this equipment.
- The need for Western equipment will be particularly high to exploit sour oil and gas from high-temperature and high-pressure deposits in the Pre-Caspian Depression.
- While the Soviets could continue to rely on indigenous capability and shift the natural gas efforts to deposits more easily developed, access to Western technology and equipment would reduce project development times, cutting some by nearly half.

Most equipment the Soviets will need is available from non-US suppliers, although US firms and their affiliates and licensees abroad are still generally the producers of the highest quality goods in most areas.

- US dominance of the worldwide petroleum equipment industry has substantially eroded over the last ten years.
- Equipment production capabilities in Western Europe and Japan have been increasing rapidly over the last few years as they have invested heavily to participate in development of North Sea oil and gas.
- The United States still maintains a substantial qualitative edge in certain electronic sensing and data processing gear necessary for seismic exploration and deep offshore drilling as well as advanced metallurgical capabilities for high-temperature and high-pressure corrosion-resistant equipment, for drilling and production.

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Subject: Western Technology and Equipment and Soviet Energy

Military Use

Substantial potential for diversion of Western electronics and metallurgical technology embodied in petroleum equipment to military-related use is believed to exist in the sale of "high-level" equipment.

- Much of the more sophisticated electronics technologies have broad military-naval applications using image and signal data processing with realtime analysis for targeting, mapping, and locating.
- The technologies embodied in corrosion-resistant production equipment and in equipment for high-pressure and high-temperature operating conditions are applicable to conventional and nuclear weapons development, marine nuclear propulsion systems, military rocket and jet engines, and other applications in armaments.
- Moreover, the technology used in the matching of components and technological properties of hardware, as well as the metal-processing and shaping technology used to manufacture these items, has the potential to help Soviet military/defense research efforts.

Denial

During the past few years, the United States has developed a comprehensive policy aimed at stemming the flow of high-quality Western technology and equipment to the USSR and other Warsaw Pact countries by expanding and upgrading export controls.

- A formal US proposal addressing emerging technologies and 21 oil and gas technology and equipment items was tabled in COCOM, and several items were accepted for full COCOM control in January 1984.
- Partial control was obtained over several other items, and discussions on the remaining items were temporarily deferred or dropped.
- US national security controls cover essentially the same items as COCOM while unilateral foreign policy controls cover the remaining exploration and production items.

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SUBJECT: Western Energy Technology and Equipment and Soviet Energy

- While these efforts probably have reduced Soviet access to clearly "dual use" technologies embedded in Western petroleum equipment, they have not significantly impeded Soviet efforts to acquire Western gear needed to upgrade petroleum operations so far.

Denial of Western production equipment for operation in corrosive and high-pressure, high-temperature environments would substantially slow progress in development of the petroleum resources in the Pre-Caspian Depression and Central Asia.

- It would also have serious--but not crippling--consequences for operations in West Siberia.
- Where operations were not halted by a lack of Western technology and equipment, the myriad of inefficiencies associated with the use of domestically-manufactured obsolescent equipment of poor quality would boost production costs and tend to reduce the percentage of oil in place that ultimately will be recovered.
- In any event, the lead time for such projects is so long that the impact on production would not be significant until the 1990s.

Even under the conditions indicated, the Soviet Union would be able to supply its own essential needs for oil, including those of the armed forces.

- Unilateral action by the United States would have very little impact.
- Concerted action by all COCOM members would slow many Soviet projects, raise their energy investment costs, and, in turn, impose costs on other sectors of the economy. In light of recent US experience in COCOM, however, it is doubtful that COCOM would agree to any significant further expansion of petroleum equipment-related export controls.

It is possible that these added costs and delays could, if coupled with other considerations, promote tactical adjustments in Soviet foreign policy. But we do not believe these pressures would be sufficient to force basic changes in Soviet defense and foreign policies.

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FOREIGN AVAILABILITY OF EXPLORATION, DRILLING AND
PRODUCTION TECHNOLOGY FROM NON-US WESTERN SUPPLIERS IN 1985

Exploration Technology

High quality services and good foreign equipment available elsewhere, particularly France, although US is preferred supplier for acoustical/ultrasonic sensors and geophysical equipment.

Drilling Technology

High quality services and gear available outside US.

Production Equipment

US equipment is preferred for most "downhole" needs, including packers, seals, valves, and submersible pumps. Other equipment is available overseas.

Pipeline Construction

Equipment is available overseas.

Processing and Refining Technology

Equipment for most applications is available overseas.

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**Western Technology and Equipment Likely To Be On
Moscow's Shopping List During 1985-2000**

For Offshore Projects:

- o Seismic survey boats with simultaneous multi-survey capability using state-of-the-art computer hardware and software
- o Drilling platforms and rigs (dynamic positioning and reentry capability)
- o Production jackets and modules (ice-resistant models)
- o Pipeline construction materials, equipment, barges
- o Drilling and production equipment and services
 - Drill pipe, collars, tool joints, bits, risers
 - Instruments for on-line monitoring of all drilling operations and directional drilling
 - Blow-out preventers and controls
 - Casing, tubing, valves, packers, mandrels, seals
 - Wellheads, trees, valves, flowlines, gauges (for surface or seafloor installation)
 - Subsea manifolds and gathering systems
 - Submersible pumps, and cables for electric power supply
 - Offshore processing and treating equipment
 - Drilling fluid and mud-logging services
 - Instruments for wellbore coring, testing

For Deep Onshore Projects:

- o Onshore seismic surveying equipment (including weight-dropping and vibration techniques) using state-of-the-art computer hardware and software
- o Deep-drilling rigs equipped for severe service
- o Sour (H_2S and CO_2) oil and gas manifold and gathering systems
- o Sulfur and carbon dioxide extraction technology
- o Sour (H_2S and CO_2) oil and gas processing and treating equipment
- o Blow-out preventers and controls for severe service
- o Drill pipe, collars, tool joints, bits, and special drilling tools for severe service
- o Instruments for on-line monitoring of all drilling operations and directional drilling
- o Corrosion-resistant casing, tubing, valves, packers, mandrels, seals, and related chemical inhibitor technology
- o Wellheads, trees, valves, and flow lines for severe service
- o Deep-pumping equipment (especially submersible pumps and pump rods for rod-and-beam pumps)
- o Gas-lift equipment and compressor stations
- o Drilling fluid and mud-logging services
- o Instruments for well-bore coring, testing, measuring pressure and temperature, and logging

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ATTACHMENT C

25 April 1985

BACKGROUND ON ENERGY PROJECTS REQUESTED BY MOSCOW FOR JCC DISCUSSIONAstrakan' Gas Development

Construction of this deep onshore gas field began in 1983 with stages II and III worth about \$1.2 billion now out for bids. The Soviets expect the field to produce 18 billion cubic meters of gas sometime in the 1990s. Engineering and management services and equipment for future construction are generally available from non-US sources. Moscow may look to the US for "downhole" equipment such as packers and safety valves.

Gas Compressors for Karachaganak

This is a \$500 million gas field project including wells, pipelines, and a gas processing plant; the project is already underway. A second plant planned for construction will need at least three compressor stations. Foreign firms and offshore affiliates and licensees of US firms are capable of supplying the services and equipment for future development.

Underwater Wellhead Equipment

Moscow will likely step up development of offshore Caspian Sea oil and gas over the next five years. US firms and subsidiaries are preferred suppliers of subsea wellhead equipment, but Norwegian, French, and British companies are prepared to enter the market.

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SUBJECT: Background on Energy Projects Requested by Moscow for
JCC Discussion

Ice Tolerant Platforms for Sakhalin

Sakhalin development is stalled absent a Japanese commitment to purchase 3 million tons of LNG annually. Should the project get underway, three or more platforms could be added in waters 30 to 90 meters deep at an average cost of \$100 million per unit. Numerous foreign countries including Japan and Korea could supply platforms for this project.

Ice-Resistant Offshore Platform Construction Yards

Platforms from the planned yards would be used in waters of the Barents', Kara, and Okhotsk Seas. Several West European countries plus Canada and Japan would be able to supply equipment and construction services for these yards at cost ranging from \$10 to \$40 million per yard.

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ATTACHMENT D

25 April 1985

FUTURE DECLINES IN SOVIET OIL AND GAS EARNINGS

Hard currency earnings from exports of oil and gas will likely fall sharply over the next five years.

- Oil production declined slightly in 1984; hard currency oil exports were maintained primarily by increasing reexports of OPEC oil obtained by barter.
- Oil sales account for nearly half of the Soviet Union's roughly \$32 billion annual hard currency earnings.

Even if the Soviets are able to sustain oil production at just under current levels and keep domestic use from rising, hard currency earnings from oil measured in constant dollars could decline by more than 50 percent by 1990.

- Should oil production decline by 1 million b/d as some experts predict, earnings would fall even more sharply to perhaps only one quarter of current levels.
- In either case, the decline in earnings will be even greater if the presumed decline in deliveries to Eastern Europe is not continued.

Gas sales cannot make up for lost oil earnings over the 1985-90 time period.

- Even under a maximum export scenario, hard currency earnings from gas sales will rise by only about \$1 billion in real terms over the next five years.

The hard currency earnings decline (measured in constant dollars) from reduced oil exports will become worse by the year 2000 even if oil production can be maintained and real oil prices rise.

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SUBJECT: Future Declines in Soviet Oil and Gas Earnings

- If the West Europeans abide by their agreement to limit gas dependence, total earnings from oil and gas in the year 2000 will range from 40 percent to less than 70 percent of current earnings. Extensive use of Western energy technology and equipment would be needed to keep oil production and, hence, revenues at the high end of the range.
- Gas exports can make up the earnings gap in this time frame only if the Soviets can convince the Europeans to buy 120 billion cubic meters per year--roughly triple current levels.

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OIL PRODUCTION, EXPORTS, AND REVENUES

(million b/d)

	<u>1983 Actual</u>	<u>1990</u>	<u>2000</u>
Production	12.3	11.0 - 12.0	10.0 - 12.0
Internal Consumption	9.0	9.3	8.6 - 9.4
Soft Currency Exports	2.2	1.4 - 2.0	1.4 - 2.0
Hard Currency Exports	1.4	0.5 - 0.9	0.2 - 0.8
(Earnings, billion <u>1983\$</u>)	(15.6)	(3.90 - 7.0)	(1.7 - 6.9)

GAS PRODUCTION, EXPORTS, AND REVENUES

(billion cubic meters)

	<u>1983 Actual</u>	<u>1990</u>	<u>2000</u>
Production	536	620	950 - 1,000
Consumption	478	548	815 - 826
Soft Currency Exports	35	38	67
Hard Currency Exports	26	37	60 - 120
(Earnings, billion <u>1983\$</u>)	(3.2)	(4.1)	(5.8 -10.5)

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SUBJECT: Talking Points on the US-USSR Joint Commercial Commission
Meeting Scheduled for May 20-21 in Moscow

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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Talking Points on the US-USSR Joint Commercial Commission

FROM:

David B. Low
NIO/Economics

EXTENSION

NO.

NIC 02177-85

DATE

25 April 1985

TO: (Officer designation, room number, and building)

DATE

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14	D/OLL				
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21					
22					
SUSPENSE		Date			

Remarks To 20: David Low should provide comments on this, as appropriate, for DCI and DDCI. (DDCI is scheduled to attend this meeting as the DCI is currently scheduled to be out of town).

Executive Secretary

26 Apr 85

Date

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ON-FILE NSC RELEASE INSTRUCTIONS
APPLY

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

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April 25, 1985

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MEMORANDUM FOR MR. NICHOLAS PLATT
Executive Secretary
Department of State

MR. EDWARD J. STUCKY
Acting Executive Secretary
Department of the Treasury

COLONEL R. J. AFFOURTIT
Executive Secretary
Department of Defense

MRS. HELEN ROBBINS
Executive Assistant to the
Secretary
Department of Commerce

[Redacted]
Executive Secretary
Central Intelligence Agency

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SUBJECT: Breakfast Meeting on the U.S.-Soviet Joint
Commercial Commission Meetings (C)

There will be a "principals only" breakfast meeting on Saturday, April 27, at 8 a.m., in the White House Situation Room to discuss the U.S.-Soviet Joint Commercial Commission Meetings. The attached policy position paper, prepared by the Department of Commerce, will be discussed at that meeting. (C)

Robert M. Kimmitt
Robert M. Kimmitt
Executive Secretary

cc: The Chief of Staff to the President

Attachment
Tab A Policy Position Paper

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April 24, 1985

MEMORANDUM FOR ROBERT C. MCFARLANE
Assistant to the President for
National Security Affairs

SUBJECT: Policy Guidance for US-USSR Joint Commercial
Commission Meeting

Basic policy positions on Soviet trade issues were considered by the SIG-IEP and approved by the President in January as part of the preparations for the US-USSR Working Group of Experts meeting. The attached paper has been reviewed at the IG level and represents what we believe to be an updated interagency view of the policy positions and guidance the U.S. delegation should follow in Moscow.(U)

I am asking for NSC or other appropriate Cabinet-level review of the policy positions in the attached paper to ensure they represent a unified and updated Administration view of what the JCC should accomplish and the policy framework in which it is taking place.(U)



Secretary of Commerce

Attachment

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OVERVIEW OF U.S.-SOVIET TRADE ISSUES
FOR JOINT U.S.-U.S.S.R. COMMERCIAL COMMISSION
IN MOSCOW, MAY 20-21, 1985

The purpose of the meeting is to review the objectives and policy positions for the U.S. delegation to the Joint U.S.-U.S.S.R. Commercial Commission (JCC), to be held in Moscow, May 20-21, co-chaired by Secretary Baldrige and Soviet Foreign Trade Minister Patolichev. (U)

Policy positions on Soviet trade issues were considered by the SIG-IEP and approved by the President in January prior to the Working Group of Experts meeting in Moscow, the purpose of which was to lay the groundwork for a JCC meeting. The NSC is being asked to review the policy positions to ensure they represent a unified and updated Administration view of what the JCC should accomplish and the policy framework in which it is taking place. (U)

On energy matters the U.S. delegation will follow the policy set out for the Working Group in NSDD 155 of January 4, 1985 -- "U.S. oil and gas equipment sales should not be an area in which the United States should agree to an active policy of trade expansion pending further policy clarification." If oil and gas export policy is raised by the Soviet delegation, the U.S. delegation will explain our current export control policy. (S)

BACKGROUND

Last year the President indicated his decision to build a more constructive working relationship with the Soviet Union, identifying non-strategic trade as an area where further cooperation might be possible. The President agreed to a 10-year extension of the bilateral Long-Term Agreement to Facilitate Economic, Industrial, and Technical Cooperation. He announced that preparations would begin for a meeting of the JCC, and he approved a meeting of the "Working Group of Experts" to identify areas in which mutually beneficial non-strategic trade could be expanded in conformity with present export control policies and to help determine whether there were sufficient grounds for a meeting of the JCC. (U)

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The Working Group discussions were confined to the non-strategic area, with the U.S. delegation telling the Soviets that the United States was not willing to consider any changes in strategic trade controls. The U.S. delegation also stressed human rights and the fact that neither MPN nor any other fundamental change in the trading relationship could occur in the absence of an increase in emigration. (U)

The U.S. maintained that nevertheless there were opportunities for an expansion of trade. There were non-strategic areas such as food processing where the U.S. was interested in selling, but where the Soviets have curbed U.S. exports by removing U.S. firms from bid lists, curtailing U.S. company promotion efforts, and encouraging a policy of avoiding American products whenever possible. For their part, the Soviets pointed to a variety of U.S. restraints on Soviet exports. (U)

Both sides agreed that while the near-term prospects were not huge, there were opportunities for expanding trade within the confines of present controls and laws, there was mutual interest in increasing trade where possible, and there were concrete actions that could be taken to expand bilateral trade on a mutually beneficial basis. (U)

The Experts Group laid out the parameters for the JCC meeting, with the U.S. side stipulating six issues for discussion, and the Soviets laying out eight. Those issues comprise the framework of the JCC meeting, and NSC concurrence with the positions to be taken by the U.S. delegation is sought. (C)

U.S.-INITIATED ISSUES

These six issues pertain principally to obtaining greater market access for U.S. companies seeking to sell non-strategic goods and services to the U.S.S.R., and were approved as goals by the SIG-IEP meeting in December. (C)

1. Joint Statement in Support of Mutually Beneficial Trade -- In January the Soviets agreed to the concept of a joint statement in favor of expanding bilateral trade. We should seek a statement that will make clear that economic relations cannot be isolated from other elements of the overall relationship; express the support of both sides for expansion of mutually beneficial non-strategic trade in a manner consistent with present laws; and indicate those steps they intend to take to support trade -- including trade exhibitions, business facilitation assistance, and publicizing trade opportunities. A basic purpose of the joint statement is to make clear to Soviet purchasing officials and to U.S. business that both governments encourage efforts to develop new mutually beneficial business. (C)

The draft joint statement is attached. It takes into account all agency views provided to the Commerce Department. (FOUO)

CONFIDENTIAL

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2. Bid Invitations -- Being invited to bid on projects or contracts is the only way companies have an opportunity to sell in the U.S.S.R. At the Experts meeting the Soviets agreed in principle to reinstitute the provision of bid invitations to U.S. firms. Embassy Moscow reports that they have begun doing so. The U.S. should seek written agreement to put all interested U.S. firms on bid lists. This should be included in the "Joint Statement". We should also seek Soviet agreement that the U.S. Commercial Office in Moscow will be able to participate in the process. (C)

3. Equal Treatment for U.S. Firms -- Soviet Foreign Trade Organizations (FTOs) have maintained de facto discrimination against U.S. firms in non-strategic areas. The U.S. should seek visible Soviet Foreign Trade Ministry action, such as a letter to Soviet FTOs from Minister Patolichev or some other ranking official stating that U.S. firms are not to be discriminated against, and that the proposals of U.S. firms should be given full consideration on the basis of their economic merit. (C)

4. Sign Some Long-Outstanding Contracts -- The U.S. should seek to have the Soviets sign some major long-standing contracts as a firm signal of their intention to do non-strategic business with U.S. firms. In January the Soviets agreed in principle, and since then have signed two or three small contracts (\$5-10 million). We should seek to have some large contracts signed, such as the Abbott baby food plant or International Harvester (Tenneco) combine factory. (C)

5. Agree on Future Project Areas -- The Soviets agreed to discuss a range of industry sectors and specific projects of mutual interest in which the Soviets would then seek U.S. company proposals. While this would not guarantee U.S. companies the contracts, it would provide an inside track for drawing up specs, etc. Beginning with a list of sectors identified by the U.S.-U.S.S.R. Trade and Economic Council, we have told the Council we are interested in exploring projects in nine sectors:

- Agribusiness
- Pulp and paper
- Pollution control
- Textiles
- Land reclamation and irrigation
- Materials handling
- Transportation
- Petrochemicals
- Consumer goods. (C)

We should seek Soviet statements that they will make special efforts in these areas to work with U.S. companies in attempting to develop projects that will be brought to fruition. While this will not

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guarantee business to U.S. firms, it would greatly improve their ability to design projects in ways that would emphasize their competitive strengths. A Projects Working Group would be established under the JCC to monitor progress and seek to maximize U.S. business. The Soviets understand that all such projects will have to be in full compliance with U.S. export control regulations. (C)

6. Soviet Support for USCO -- The Soviets have agreed to terminate their ban on company seminars and exhibitions at the U.S. Commercial Office in Moscow (USCO) and to begin providing the necessary facilitative support, if the Department of Commerce will also reinstitute participation in some Soviet trade fairs. The U.S. would announce its intention to begin an initial promotion program in the U.S.S.R. which would include a small number of trade missions, U.S. exhibits in one or more appropriate Soviet trade fairs, and a full range of solo and multiple exhibitions and seminars at USCO. (C)

In addition, the U.S. should accept the Soviet offer to pay half the cost of a program to help small U.S. companies sell in the Soviet Union. The U.S. should propose that in part this should be in the form of sharing the cost of small business information centers that the Commerce Department would set up in appropriate Soviet trade fairs. We will note that this agreement in no way constitutes a precedent for similar action in the U.S. (C)

A successful program which would generate U.S. sales in the U.S.S.R. requires facilitative assistance on the part of the Soviets, and the U.S. should, on a reciprocal basis, offer to provide appropriate technical facilitation to the Soviets should they desire to commence an export promotion program in the United States. Such assistance would be limited to technical advice on how to use trade fairs in the United States, and would not include any direct marketing assistance to Soviet exporters. (C)

SOVIET-INITIATED ISSUES

1. MFN and Human Rights -- The U.S.S.R. will reiterate its official view at the JCC that human rights and trade should not be linked. At the January Experts meeting the Soviets were told of our serious concerns about Soviet human rights abuses and emigration policy. The U.S. delegation made it clear that there could be no fundamental change in the trade relationship in the absence of major improvement in emigration practice. MFN, export credits, a trade agreement, and other aspects of a fundamentally-improved trade relationship were out of the question unless that happened. (C)

The U.S. delegation should reiterate these serious concerns in the most effective manner possible and should stress that major improvement in Soviet human rights practices must accompany any fundamental improvement in the trade relationship. (C)

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2. Furskin Embargo -- Since 1951 the United States has banned imports from the U.S.S.R. of seven types of furskins. The U.S. has a global trade surplus in furskins, with high quality pelts exported and lower quality pelts imported. A Commerce review of the industry indicates lifting the embargo would have little or no effect on domestic production. The Soviets are seeking elimination of the ban more for political than economic reasons. (C)

In January the President decided to indicate to the Soviets a willingness to discuss with Congress lifting the ban if the Soviets were willing to improve business conditions and prospects for U.S. firms. The Soviets have begun to make such improvements, and preliminary explorations on options for removing the furskins embargo have been held by the Commerce Department with the relevant House and Senate staffs. They indicated the best approach would be for the Administration to introduce legislation to eliminate the ban, and indicated the prospects for passage were good if properly handled. (C)

The U.S. delegation should be authorized to tell the Soviets at the JCC that in return for concrete steps to increase U.S. company access to the Soviet market, the Administration will introduce legislation to eliminate the embargo of the seven Soviet furskins. (C)

3. Nickel Certification -- Under the economic embargo against Cuba, the U.S. banned imports of unfabricated nickel-bearing materials from the U.S.S.R. in December 1983 since the U.S.S.R. imports large amounts of Cuban nickel. The U.S.S.R. was given the opportunity to negotiate a certification arrangement similar to ones negotiated with our allies, but has been unwilling to discuss a government-to-government agreement. At the Experts meeting the U.S. delegation reiterated an offer to consider the relevant Soviet foreign trade organization (PTO) as the signatory if the Soviets would provide a written commitment that the PTO was acting on behalf of the Ministry of Foreign Trade. (C)

The Soviets have not responded positively to the U.S. offer. If the Soviets raise this issue, the U.S. delegation should inform the Soviets that we have already attempted to accommodate certain of their expressed concerns and believe the problem is resolvable if they in turn demonstrate some flexibility. This position is consistent with the view informally communicated by Treasury to the Soviet Embassy representative since the Experts meeting. (C)

4. Aeroflot Landing Rights -- As a result of Afghanistan-, Poland-, and KAL-related sanctions, all scheduled Aeroflot service to the United States and virtually all ties between Aeroflot and the U.S. travel industry have been terminated. In the January Experts Group meeting the Soviets were told that the U.S. was

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willing to begin discussion of civil aviation matters, but only after conclusion of an agreement to improve safety on North Pacific air routes, and with the understanding that any restoration of Aeroflot service would have to be part of a package offering an equitable balance of concessions for U.S. carriers. (C)

Meetings were held in Washington between U.S., Soviet and Japanese representatives on the question of North Pacific air safety February 26 - March 3. These sessions made some progress, but an agreement has not yet been reached. We are hoping to arrange a follow-up meeting in May. The U.S. delegation should reiterate our readiness to enter into civil aviation discussions as soon as North Pacific safety measures are agreed, reminding the Soviets that such negotiations will require an equitable balance of economic benefits. (C)

5. Port Access Regulations -- The Soviets seek relief from the port access regulations imposed upon them following termination of the bilateral maritime agreement and the imposition of martial law in Poland, and particularly for their grain vessels seek easing of the requirement for 14-day advance requests before being given permission to enter U.S. ports. Under the expired maritime agreement, from 1974 to 1981 Soviet vessels were required to make only 4-day advance requests. (C)

U.S. agribusiness is concerned that the current policy has an adverse effect on U.S. grain exports to the U.S.S.R. The U.S. maritime industry, however, believes that the 4-day notification is their principal leverage on the Soviets in getting a new maritime agreement with reciprocal benefit for the U.S. industry. (C)

Up until January, as a Poland-related sanction, the United States was unwilling to hold maritime discussions. During the January Experts meeting, the Soviets were told that the United States was willing to consider a change in port notification requirements as part of an overall discussion of maritime issues within our traditional maritime framework, and that such discussions would have to encompass U.S. maritime interests. The Soviets noted this offer with great interest in Moscow and made a follow-up inquiry in Washington, but have not responded. (C)

The U.S. should inform the Soviets in advance of the JCC that we are willing to include a Maritime expert on our delegation to have an exchange of views on the parameters of a possible maritime agreement. (C)

6. Tax Protocol -- A tax protocol amending various provisions of the U.S.-U.S.S.R. income tax treaty was agreed to in May 1981, but not signed. Among other matters, the protocol addressed Soviet concerns regarding U.S. tax treatment of Soviet employees of Aeroflot. A compromise was worked out under which such employees

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would pay back income taxes and interest, but would be exempt from social security and unemployment taxes retroactive to 1976, when the basic treaty took effect. Changes in tax laws since 1981 would have to be reflected in any new protocol, and it may be very difficult to make refunds from the Social Security Trust Fund. (C)

The Soviets were told in January that the United States was willing to move forward on the unsigned protocol, but that changes may have to be made. No response has been received from the Soviets, and no further U.S. action should be taken other than to reiterate the January offer. (C)

7. Supplier Reliability -- The Soviets want a discussion of this at the JCC meeting. The U.S. delegation should explain the meaning of the contract sanctity provisions of the Export Administration Amendments Act, which passed the House and is awaiting Senate action. The Act contains two "contract sanctity" provisions. As to agricultural commodities, forest products and fisheries products, short supply export restrictions will not apply to any contract to export which was entered into before the date on which the controls are imposed. (C)

The Export Administration Amendments Act also contains a general contract sanctity provision applicable to controls imposed in the future on foreign policy grounds. The President is forbidden to prohibit or curtail the export or reexport of goods, technology or other information unless he determines and certifies to Congress that there exists a breach of the peace which poses a serious and direct threat to the strategic interest of the United States. (C)

These contract sanctity provisions would not apply to new controls imposed under other authority (national security provisions of the EAA, the International Emergency Economic Powers Act, or new legislation), but the recent legislative action on the subject will have a restraining influence on the exercise of such other authorities. (C)

8. Antidumping -- Not currently an issue. The January Experts Group conducted a seminar for Soviet officials addressing Soviet concerns and their inadequate understanding of U.S. law and practice. The Soviet potash case was terminated in March, because the International Trade Commission found that U.S. potash producers were not being materially injured. In April, Commerce issued the Administrative review of the antidumping order on titanium sponge, finding a margin of 83.96 percent. The result was based on the best information available because the Soviet exporter submitted an inadequate response to our questionnaire. (C)

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Clearances:

Commerce/TA:	DSchlechty, 4/23/85
	GKaplan, 4/24/85
Commerce/TD:	HMisisco, 4/23/85
Commerce/GC:	CNovelli, 4/24/85
Commerce/CA:	GMcKiernan, 4/24/85
Agriculture:	LSebranek, 4/23/85
State/EB:	EHurwitz, 4/24/85
State/EUR:	DKursch, 4/23/85
Transportation:	RBourdon, 4/23/85
	CHeckman, 4/24/85
Treasury:	GClapp, 4/22/85
	MMuench, 4/24/85
USTR:	RJohnson, 4/23/85

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